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BOSTON UNIVERSITY

GRADUATE SCHOOL

Thesis

CAPITAL OUTLAY BUDGETING: A TOOL FOR PLANNING

by

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(A.B., Radcliffe College, 1940)

submitted in partial fulfilment of the
requirements for the degree of
Master of Arts
1945

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PREFACE

The subject of capital outlay budgeting is one which completely captivates the imagination. In many ways it is unexplored territory. The literature in the field is very sparse but there is a growing awareness of the potentials of a capital outlay budget as a tool for planning.

Due to difficulties of language, the developments in Sweden, where the technique is most advanced, are little known. Economists have studied Sweden's success in smooth-out industrial fluctuations, but the Swedish experience offers a field practically untouched by students of public administration.

A capital outlay budget is of great value at the municipal level. Municipal government is so intimately connected with the life of every person in a community that a well planned, foresighted budget pays immediate dividends.

I have attempted in the following pages to give some of the theory that lies behind the practice of capital outlay budgeting. I have tried to indicate the elements of capital outlay budgeting that are creeping into all levels of government in the United States. The work includes a statement of the essential parts of a

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municipal capital outlay budget and a discussion of some of the problems that present themselves when establishing a capital outlay budget.

I have been increasingly impressed with the number and complexity of problems that face municipalities today. For this I am indebted to my experience with the Cambridge Committee for Plan E; to Mr. Frederick S. Hatch of the Winchester Planning Board; to Mr. Draveau Bender of the Cambridge Planning Board; and to all the other persons who are as interested as I in the problems of municipalities and have talked to me about them. Most of all, my association with Professor Don B. Leiffer in his classes and administration of the Boston Contest has opened the doors to a consideration of the perplexities of town and city government.

It seemed obvious, that if budgeting is planning, therein lies the means to a solution of many of these problems.

This thesis is not the last word on capital out-budgeting. I even hope it is not my last word. However it carries with it the thrill of dipping into unknown territory, and of being at least a bystander at the beginnings of a most significant development in the field of budgeting in the United States.

INTRODUCTION

Economic thought, it is said, has little bearing on modern economic practice. Such a generalization flows logically from any attempt to equate classical economics and its ideas on the gold standard, balanced budgets, and laissez-faire, with modern standards of full employment, government spending, and a stable economy. As a generalization, though, it is not quite just. Economic thought has not been callous to the heartbeats of the times.¹ The years of upheaval, which followed the first World War and the crash of 1929, caused men to reevaluate their thinking in many fields; and, in economics, have given rise to a consideration of Konjunkturpolitik, a term that denotes a "combination of credit, budgetary, commercial and wage policies aimed at smoothing out industrial fluctuations."²

The contribution of Swedish economists, Wicksell, Cassel, and Myrdal, to the consideration has been all out of proportion to the influence that Sweden might expect, in terms of her size, to exert on the world. This has been due to an interaction of economic theory and practice, fostered by the government's asking advice of the economists and the economists' taking part in government.³

Of particular interest here is the budgetary

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1. Cf. Myrdal, Gunnar. Monetary Equilibrium, pp. 1-9.
 2. Thomas, Brinley. Monetary Policy and Crises, Introduction, p. xiii.
 3. Ibid, Introduction p. xiv.

policy part of Konjunkturpolitik and the capital outlay budgeting technique as developed in Sweden. The economic theory of the budgetary policy has many ramifications and actually is difficult to separate from credit, commercial and wage policies. To state it simply, it accepts as fact that private industry cannot maintain the economic system at a level. Instead, the pattern of private economy is one of fluctuation from boom to depression to boom. The government's role is to set in motion a countercycle. When private industry is on the downswing and reducing its expenditures, government spending should expand; when private industry is on the upswing, government spending should contract.

The national budget of Sweden is divided into two parts. It draws a distinction between ordinary or current expenditure and expenditure on additions to the national assets. Thus government expenditures are divided in two accounts, a "household account" and a "business account." The first account includes the expenditures for the usual services of government and is financed by revenue. The "business account" encompasses the government's investment in public works. Sweden has used this second budget as a means of stimulating industrial recovery.

The second or investment budget embodies a program of government loan-expenditures along socially desirable spending channels, which is brought into play when

the downswing has liquidated the excesses of the boom. This technique was put into practice in Sweden by a Social-Democratic government in 1933 - 1937, a period that saw a complete business cycle.

In Sweden it is generally and currently assumed that business slumps are inevitable. When they occur, the government has two problems. Internally, it is faced with reduced revenues. It can in such an emergency put into effect two kinds of economies: (1) a general reduction in wages and salaries of public employees or (2) a curtailment of government services. In the absence of either of these, taxes have to be stiffened. Reducing wages, curtailing services, and stiffening taxes aggravate the slump. "The fundamental problem," as Dr. Thomas states with reference to the collapse of the late 1920's, "was whether the budget was to be balanced in the orthodox manner, year by year, by rigid economy and a stiffening of the tax rates, accompanied by a deflation of wage incomes....." 4

Besides the problem of its own financial situation, the government, in times of depression, has also the problem of providing relief for unemployed workers. This relief can be subsistence payments or employment in public works. The weight of opinion favors the absorption of

4. Thomas op. cit., p. 207.

workers into public works, which in addition to providing livelihood places less strain on the morale of those who would otherwise remain idle.

Thus, loan-financed public works make it possible for the government to provide relief, and, at the same time, induce industrial revival and solve the problems of its own internal economy. The borrowed money must, of course, be charged to the future, a proper proportion to each year until the debt is paid. A period of government expenditure for public works must be followed by years of careful financing.

The example of Sweden "indicates that a slump can be shortened ~~and~~ a recovery accelerated when the Government and the Central Bank co-operate to diminish uncertainty and to furnish the conditions necessary for a revival of investment." ⁵ The example leads one to assume that the foresightedness of the dual budget system would have its impact on practice in the United States. But, those factors of economic, social, and political life in which the United States differs from Sweden, set up a resistance to the adoption of a capital outlay budget in the United States.

5. Thomas, op. cit., pp. 238-239

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We depend on the Federal Government to cope with the tremendous problems of a depression. Its role is action in an emergency. To the American mind, slumps are not deviations from the norm that reasonable men must expect but phenomena that, in the free working of our economic system, should not occur. This statement is not meant to be facetious. Neither is it intended to be evidence of national blindness. Such a faith is solely an ingredient of national pride and historical climate. It is in contrast to Sweden's assumption that the ups and downs of the business cycle are inevitable and that the government should develop techniques to smooth out these fluctuations.

Sweden and the United States are similar in that both their economies are mainly industrial. Dr. Thomas states that in Sweden, "by 1920 the number employed in agriculture had declined to 44 percent, while the other group (those employed in industry, mining, and commerce) had expanded to 2,964,000 or 47 percent." ⁶ Dr. Thomas goes on to say, "This industrial revolution gave birth to a trade union system which is probably stronger than in any other European country and a Co-operative Movement which is now responsible for over one-tenth of the total retail turnover." ⁷

6. Thomas, op. cit., Introduction, p. xvlii.

7. Idem.

Thus Sweden has pioneered in Socialism, an historical development which has no duplicate in the United States. This pioneering made fertile ground for the acceptance of a stable wage,⁸ another facet of Konjunkturpolitik,⁹ and support of the government's going into business. "The State (Sweden) owns the railways, telegraphs, and one-quarter of the country's forests. Among the 'State Productive Funds' are the shares held in a large iron ore company and in the public monopolies controlling tobacco and spirits. The 'State Loan Funds' enable credit to be granted on liberal conditions for objects of social or national importance, e.g. housing and railway development. The Bank of Sweden is a publically owned institution." ¹⁰

The Swedes have an attitude toward public spending that is quite different from that in the United States. "The concept of public spending in Sweden is basically different from that in the United States. In the United States, public spending is referred to as pump priming; and the idea is prevalent that a relatively small amount of public spending will create a relatively huge amount of private business, which will thereafter

8. Editors of Fortune in consultation with Prof. Gunnar Myrdal. "That Wonderful Swedish Budget." Fortune, September, 1938.

9. Cf. Thomas, op.cit., Introduction, p. xiii.

10. Ibid., pp. 205-6

1. The first part of the document is a letter from the President of the United States to the Congress, dated January 1, 1861. It is a very important document, as it contains the President's message to the Congress at the beginning of his first term. The letter is written in a formal, dignified style, and it is a good example of the President's role as the head of the executive branch of the government.

2. The second part of the document is a report from the Secretary of the Treasury, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the Treasury at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

3. The third part of the document is a report from the Secretary of the Interior, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the Interior at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

4. The fourth part of the document is a report from the Secretary of the War, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the War at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

5. The fifth part of the document is a report from the Secretary of the Navy, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the Navy at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

6. The sixth part of the document is a report from the Secretary of the State, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the State at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

7. The seventh part of the document is a report from the Secretary of the War, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the War at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

8. The eighth part of the document is a report from the Secretary of the Navy, dated January 1, 1861. It is a very important document, as it contains the Secretary's report to the Congress on the state of the Navy at the beginning of his first term. The report is written in a formal, dignified style, and it is a good example of the Secretary's role as the head of the executive branch of the government.

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continue under its own steam. The basic idea of Swedish spending, on the other hand, is compensation; that is to say the government spends in order to maintain the national income and purchasing power during those periods when industry is unable to do so." 11

The question now arises, "Do these differences between the United States and Sweden nullify the technique of capital outlay budgeting for the United States?" The United States Government's announced policy of providing 60,000,000 post-war gainful occupations for Americans, implemented in the proposed Full Employment Act of 1945, implies an unemployment budget on a national scale. We even talk of a post-war "guaranteed wage." Such a budgetary and wage policy is in conflict with our belief that a public works program is a last resort and our horror of any extension of government control over the national economy.

An article by George Ericson, entitled, Is Big Public Works Program A Necessity After VJ-Day? reflects this conflict in ideas. "As to the question posed at the beginning of this article regarding the place of Federal aid in relieving unemployment, it may be said that public works should be used chiefly as a cushion against

11. Editors of Fortune, op. cit., p. 138.

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the bad effects of depressions. It would appear as if the huge money savings made during the war years and the tremendous need to replace worn-out machines and goods will make early recourse to public works as a relief measure unnecessary. It is heartening, nevertheless, that such a program is in the making and can be made to function when private business fails to provide the jobs. Needed public works will be carried on, of course, and these furnish real jobs, as do industry and trade. But a work relief program ought to be regarded as a last resort."¹²

It is "heartening" to see in the making a program similar to Sweden's investment budget. However, there are "needed public works" and a "work relief program." Spending on the latter "should be used chiefly as a cushion against the bad effects of the depression" but is not compensation. It is a "last resort." In other words, Mr. Ericson desires economic stability but cannot consider, in anything but a bad light, the means to achieving it.

12. Ericson, George. Is Big Public Works Program A Necessity After VJ-Day?, Christian Science Monitor, April 14, 1945.

The following is a list of the names of the persons who have been
admitted to the office of the Secretary of the State of New York
since the 1st of January, 1880, and who have been sworn in as
such, according to the provisions of the Constitution of the State.
The names are given in alphabetical order, and are followed by the
date of their admission to office, and the name of the Governor
under whom they were sworn in. The names of the persons who
have been admitted to office since the 1st of January, 1880, are
given in italics, and the names of the persons who have been
admitted to office before that date are given in plain type. The
names of the persons who have been admitted to office since the
1st of January, 1880, are given in italics, and the names of the
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1880, are given in italics, and the names of the persons who have
been admitted to office before that date are given in plain type.

ALBANY, N. Y., JANUARY 1, 1880.

MASSACHUSETTS AND POST-WAR PUBLIC WORKS

THE UNIVERSITY OF CHICAGO

A discussion of capital outlay budgeting belongs to that fluid, misty area where the present is almost indiscernible from the future. It is a topic whose timeliness has not quite arrived. At all levels of government, there is evidence that some phase of the technique is thought of or practiced, perhaps, as the first step to fuller use.

As a technique whereby additions to governmental assets are an account separate from current operations, it has, as a corollary, a reservoir of plans to bring into play in times of depression. The last chapter referred to the Federal Government's awareness that immediately after World War II employment must be provided for the men and women released from the armed forces and from war industries. At the State level, Massachusetts is aware that a well planned program of public works must bridge the lag in employment due to the conversion from wartime to peacetime production.

The Emergency Public Works Commission¹ was authorized in 1943² to prepare a program of post-war public works that might be undertaken by the Commonwealth. In carrying out this policy, "The Commission at all times considered the program to have the three-fold purpose of taking up the slack of needed capital improvements postponed because of the war, improving

1. Established by Chapter 365 of the Acts of 1933.

2. By Section 1, Chapter 517 of the Acts of 1943.

and should be considered as a part of the whole.

The second part of the report is a summary of the work done during the last year. It is divided into three parts: the first part is a summary of the work done during the last year; the second part is a summary of the work done during the last year; and the third part is a summary of the work done during the last year.

The third part of the report is a summary of the work done during the last year. It is divided into three parts: the first part is a summary of the work done during the last year; the second part is a summary of the work done during the last year; and the third part is a summary of the work done during the last year.

The fourth part of the report is a summary of the work done during the last year. It is divided into three parts: the first part is a summary of the work done during the last year; the second part is a summary of the work done during the last year; and the third part is a summary of the work done during the last year.

The fifth part of the report is a summary of the work done during the last year. It is divided into three parts: the first part is a summary of the work done during the last year; the second part is a summary of the work done during the last year; and the third part is a summary of the work done during the last year.

the services rendered to the public, and concurrently providing worth while employment for those who will be released from the armed forces and from war industry after the cessation of hostilities."³ In addition to this "the Commission feels that it is equally important to undertake public works which will help to develop the commerce of Massachusetts and particularly of the Metropolitan area."⁴

December 8, 1944, the Commission made a preliminary report to the Governor. Previously it had requested all state departments to submit their recommendations and to rank their needed capital improvements in five classifications: most urgently needed, urgently needed, needed, highly desirable, and desirable. "615 projects estimated to cost \$212,000,000 were submitted for consideration."⁵

The Commission chose its first group of projects in September, 1943. Other groups have been selected from time to time and as of December 8, 1944 had provided for the making of work plans and specifications for "94 projects estimated to cost \$44,833,000."⁶ Compensation for the firms, making these plans, has been provided by the Governor's and Council's transferring \$1,150,000 from the Emergency War Fund.

3. Emergency Public Works Commission, Preliminary Report on Public Works, Dec. 8, 1944.

4. Idem.

5. Idem.

6. Idem.

As a subsidiary function, the Emergency Public Works Commission is required to "prepare and maintain current progress information on the design of post-war projects by the municipalities of the Commonwealth."⁷ In August, 1943, the Commission contacted the governing bodies of all municipalities, recommending that local post-war public works committees be established to develop local programs. They also employed a Municipal Consultant, Mr. Clarence W. Hayden, who has devoted his entire time to stimulating interest in public works planning and to assisting local organizations. As of December 8, 1944, the Commission had recorded 336 local committees, almost a full coverage of the municipalities. "From this," reports the Commission, "it appears that the municipalities are developing a substantial program of post-war public works as reports from 173 communities indicate 1462 projects estimated to cost \$56,000,000 ready to start immediately, and plans in process for an additional \$60,000,000."⁸

So far as municipal programs are concerned, the functions of the Commission are purely informative and advisory. The selection of local projects rests entirely with the individual community. Likewise, the Commission has no funds to distribute to the municipalities. It suggests that an appropriation be made available for preparing specifications.

7. Idem.

8. Idem.

Lacking an appropriation, the Commission suggests that a city or town make the money available by a transfer from the reserve fund.⁹ This transference is provided for under Chapter 40 of the General Laws, Section 5A in the case of cities and Section 6 in the case of towns.

The main thought of the Emergency Public Works Commission is that the time for dreamy post-war planning is past. The time for preparing plans and specifications is now. The purpose of the Commission is to activate this policy at the State level, and, in an advisory capacity, to stress to the municipalities the urgency of being prepared.

The Commission, certainly, is building a large reservoir of plans. If the specifications were accompanied by a comprehensive plan for financing the projects, the Commonwealth of Massachusetts would be going a long way toward establishing a capital outlay budget.

9. Infra, pp. 25-27, for a discussion of a Federal program for financing preparation of specifications.

the following information regarding the company's financial condition and operations for the year ended December 31, 1999.

The following information is presented in accordance with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

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CAPITAL OUTLAY BUDGETING IN MUNICIPALITIES

THE UNIVERSITY OF CHICAGO

One of the great cultural lags of modern society is municipal government. Municipal administration has not kept pace with the progress that has been made, for instance, in business administration. In each field, the fundamental problems of personnel, organization, and fiscal management are much the same. "More business methods in government" is not, however, a sensible slogan for political reform. A business corporation and a municipal corporation have different purposes. A business corporation looks toward profits; a municipal corporation provides services for the citizens who constitute it. A business must think in terms of, "What can we afford to do?" A municipality must think, "What can we afford not to do?" The former allocates the funds on hand; the latter raises the funds to meet a prior allocation.

Clearly the realm of planning so as to cushion a business cycle is beyond the scope of municipalities. At the municipal level, capital outlay budgeting is an administrative aid in fiscal management.

1. Purposes of a Municipal Capital Outlay Budget

A municipality must plan its services with thought to assessed valuations, the demands and support of other areas of government, economic conditions, an optimum tax rate, and, above all, the needs and growth of the community.

A capital outlay budget for a municipality means a financial blueprint projected into the future. It separates operating and maintenance disbursements from expenditures for public works. It estimates operating expenses and receipts for a period of years, subtracts expenses from receipts, and the remainder is the amount available for capital improvements. The amount available does not usually comprise the whole, immediate payment for a capital improvement but instead governs the amount that can be wisely borrowed. Capital improvements are generally financed by borrowing. The amount available for them is used to retire the bonds as they come due and to pay interest. The capital budget also contains a schedule of improvements, in order of priority and with estimated costs.

2. The Role of the Planning Board

The responsibility for formulating and operating a capital outlay budget is usually placed in the hands of the planning board. Towns usually elect their boards. In cities, they are usually appointed.

Not enough emphasis has been placed on the importance of these planning boards. For example, in Winchester, a town, the Planning Board operates on a yearly budget of approximately \$75. Winchester has a capital outlay budget and operates under a six-year plan. The Planning Board is responsible for submitting an annual report to Town Meeting, with reference to an advance program of public works. They

revise the previous report and extend it one more year. It is in the tradition of New England and the town meeting form of government that such an important function should be entrusted to elected officials and that there should be interested citizens willing to serve. Winchester is a small, residential, and prosperous community. Its problems are therefore those of physical planning, i.e., the location of fire stations, a program of street construction, and the elimination of the grade crossing. Nevertheless, the job of perpetuating the capital budget demands much in time, energy and study from those who are responsible for developing the large picture of municipal services.

A city has problems of sociological aspect. Zoning must resolve the conflict between industrial, residential and apartment house sections within its borders. Planning should take into consideration the reclamation of blighted areas, provision of place space in crowded locations, and an expansion of city services, such as health and dental care, in the best interests of the community. These are in addition to consideration of the physical plant of the city.

The Planning Board of the City of Cambridge is in the process of setting up a capital budget. This Board, appointed by the City Manager, operates on an annual appropriation of about \$2000. This sum includes \$1800 for the salary of an one-third time staff planner.

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With such limitations, in staff and funds, the Board cannot proceed with much speed.

Setting up a capital outlay budget is a painstaking task. Cambridge's budget has now reached the stage where an estimate of future expenditures and receipts has been made on the basis of past experience. Mr. Draveau Bender, the staff of the Planning Board, has had his difficulties. The activities of the City of Cambridge have not been adequately reported in the past. The budget is an administrative aid and the city's administrator, the Manager looks forward to establishing a Public Works Department, which will combine the present Park and Street Departments and divorce supervision of recreation from the Park Department. Such a revision in organization, though only potential, has to be considered a factor in the capital outlay budget. The City Manager is also most anxious to arrive at and maintain a \$35 tax rate.

It is unfortunate that Mr. Bender does not have adequate assistance. A capital outlay budget would have a maximum usefulness in the first post-war years. It would put into focus the projects and services that have been delayed due to wartime restrictions. It would give a picture of what monies the city will have available for capital expenditures, and it would give thought to a reasonable program of expenditures.

The following is a list of the names of the persons who have been elected to the office of the President of the United States, from the year 1789 to the present time. The names are given in the order in which they were elected, and the year of their election is given in parentheses. The names are given in the order in which they were elected, and the year of their election is given in parentheses.

George Washington (1789)
John Adams (1797)
Thomas Jefferson (1801)
James Madison (1809)
James Monroe (1817)
John Quincy Adams (1825)
Andrew Jackson (1829)
Martin Van Buren (1837)
William Henry Harrison (1841)
Francis Pickens (1857)
Abraham Lincoln (1861)
Andrew Johnson (1865)
Ulysses S. Grant (1869)
Rutherford B. Hayes (1877)
James A. Garfield (1881)
Chester A. Arthur (1881)
Grover Cleveland (1885)
Benjamin Harrison (1889)
William McKinley (1897)
Theodore Roosevelt (1901)
William Howard Taft (1909)
Woodrow Wilson (1913)
Warren G. Harding (1921)
Calvin Coolidge (1925)
Herbert Hoover (1929)
Franklin D. Roosevelt (1933)
Dwight D. Eisenhower (1953)
John F. Kennedy (1961)
Lyndon B. Johnson (1963)
Richard M. Nixon (1969)
Jimmy Carter (1977)
Ronald Reagan (1981)
George H. W. Bush (1989)
Bill Clinton (1993)
George W. Bush (2001)
Barack Obama (2009)
Donald Trump (2017)

The work of Planning Boards is little known and little understood; yet, whether the city or town has a capital budget and whether that budget works depends solely on how well the Planning Board discharges its responsibilities. The Town of Brookline started a capital outlay budget. The Planning Board became discouraged with trying to plan in wartime.¹ Brookline's budget has now lost its planning aspects and is purely a procedure of accounting separately for expenditures on additional, not replacement, equipment.

As the adoption of capital outlay budgeting spreads, Planning Boards will play a greater role in municipal affairs.² Perhaps the future holds for them adequate staffs and appropriations.

3. Estimating Receipts

As stated above, a municipal capital budget has four parts: (1) an estimate of receipts; (2) an estimate of expenditures; (3) an estimate of the growth of the community as reflected in assessed valuations and population trends; and (4) a program of capital improvements with a plan for financing them. The first three parts are really one for they are interdependent.

A part of a municipality's income results from departmental fees and charges. The larger part comes from taxation of real estate, which is discussed below in connection with assessed valuation. A city or town receives

1. The Brookline Planning Board has resumed its revision of the Capital Budget for Brookline.
2. Recent developments have been a capital outlay program for Reading and a program of capital expenditures for Arlington.

The first part of the paper is devoted to a general discussion of the problem of the existence of solutions of the system of equations (1) for arbitrary values of the parameters α and β . It is shown that the system has solutions for all values of the parameters α and β if the function $f(x)$ is continuous and has a bounded derivative. In the case when the function $f(x)$ is not continuous or has an unbounded derivative, the system may have no solutions or a finite number of solutions. The second part of the paper is devoted to the study of the properties of the solutions of the system (1) for arbitrary values of the parameters α and β . It is shown that the solutions of the system (1) are unique and depend continuously on the parameters α and β . The third part of the paper is devoted to the study of the properties of the solutions of the system (1) for arbitrary values of the parameters α and β . It is shown that the solutions of the system (1) are unique and depend continuously on the parameters α and β .

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some aid from the State. The Commonwealth assumes a portion of the cost of education and welfare, and shares some of the state-collected taxes such as income tax, the corporation tax, and the meal tax.³

As a result of the depression contact was established between the Federal government and the municipalities, a relationship that had heretofore been short-circuited by the state's plenary power over municipalities and the municipalities' inability to appeal to the Constitution for protection from state action. As Louis Brownlow observed, with reference to the depression, "It has been said that an outstanding feature of the current revolution is the fact that the Federal government has discovered cities. It is quite as true that the cities have discovered the Federal government. Still legally and politically creatures of the state, the municipal governments have been forced to look beyond state lines to seek even tolerable and temporary solutions of their problems of unemployment relief and of municipal credit....."⁴ the municipalities appealed directly to Washington in the instance of public works, and the United States Conference of Mayors at Washington sought aid the members knew was not available in their own states.

3. Infra., Part 4, "Estimating Expenditures" for a treatment of the State Tax.

4. Brownlow, Louis, "Looking Ahead at City Government," Municipal Year Book, 1934, p. 4.

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The United States Conference of Mayors still maintains contact with the Federal Government and still looks for Federal aid. On February 22, 1945, the Conference sent a report to the Senate Committee on Appropriations concerning the advancement of Federal funds to cities authorized in Title V of the War Mobilization and Reconversion Act of 1944. The funds were for the preparation of detailed engineering and architectural plans and specifications for post-war public works. The President requested \$78,115,000 of the House Appropriations Committee. The House approved the Committee's action in reducing the amount requested to \$5,000,000. The Mayors' Conference protests this reduction. The report points out that it is necessary to plan ahead for economic stabilization in the transition and reconversion period through a program of public works and states, "The cities are willing and ready to spend several billions of local taxpayers' funds for needed and useful community public works, as a part of a national re-employment program. Plans and specifications, funds for which are now lacking in many jurisdictions, are required if a shelf and reservoir of projects are to be ready when hostilities cease."

Everyone must agree with the United States Conference of Mayors that a makeshift work relief program will mean a waste of manpower and funds. However, it is generally accepted that specifications and complete engineering

advice should amount to only one-fifth of the total cost of the project. This is an era of prosperity in municipal finance. If cities now must depend on the Federal government for funds to cover the plans, how can they be "prepared to spend several billions of local taxpayers' money when the post-war dislocation arrives, bringing with it difficulties in municipal finance?

Wartime municipal taxation has emphasized the reduction of the tax rate. Municipalities have been able to institute "pay-as-you-go" on expenditures and to reduce their debt. Reduction of the debt and tax rate and "pay-as-you-go" have been possible in the last few years due to contraction in the costs of welfare. No demand, except for the barest essentials of maintenance, have been placed on municipal budgets, which usually support large programs of road and sewer construction.

It is necessary for cities and towns to save now for future projects. That the Federal government accepts the responsibility for economic stabilization, does not relieve the municipal government of its duty to be foresighted. Receipts should be estimated and required with an eye to the municipality's getting on with as little subsidy as possible. A capital outlay budget in planning for the future should emphasize the capacity of the city's own financial structure.

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4. Estimating Expenditures

Estimating expenditures is a technical job within the scope of engineers and purchasing agents rather than students of public administration. Future operating expenditures can be projected with reasonable accuracy from a study of past expenditures. The cost of capital outlays can best be determined by engineering methods.

In estimating both capital and operating expenditures, it is necessary to take into consideration economic conditions, especially trends in prices. The factors on which the price level depended in any year used as a base must be compared with current conditions and the prospects for the future. With respect to the future, any assumption is subject to amendment. The important thing, however, is to know the assumptions so that their effect on any revision of the estimate can be calculated.

Winchester, for example, assumes in estimating expenditures both for operation and public works a return to pre-war costs for labor and materials at the cessation of hostilities. The proposed capital outlay budget for Cambridge assumes that high war prices will persist for a period of years. Whether Cambridge's or Winchester's prophecy is correct only time will prove. Perhaps, each is partially correct. In any event, it will be necessary

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each time these communities revise and extend their budgets to be aware of what basic ideas served as a foundation.

Of all items of expense in a city's budget, the cost of welfare and relief is perhaps the most fluctuating. It looms as a large, undeterminable factor in postwar budget planning. Past experience shows that welfare has been a heavy burden on municipalities and consequently on real estate. Relief costs are high in bad times and low in good times. Unfortunately these costs are in phase with the difficulties real estate owners have to pay taxes and the fluctuation of the interest rate. When real estate owners are hard pressed financially because of depression, municipalities require more of them so as to meet welfare costs, or the municipality must borrow at a high rate of interest.

The Special Recess Commission on Real Estate Taxation and Related Matters³ has given much weight to this problem. In its report of March 15, 1945, the Commission recommends that the State, with the advantage of a broader tax base, "should assume 75 percent of the cost of all categories of relief, exclusive of amounts received from the Federal Government."⁴

3. Established by Chapter 45 of the Acts and Resolves of 1943.
4. Report of the Special Commission on Real Estate Taxation and Related Matters, March 15, 1945, p. 6.

By transferring welfare costs to a higher level of government, a greater equity is achieved. As the Commission states, "There is no justice in the present situation under which an industrial community may be brought to the brink of collapse by relief costs while a neighboring residential town escapes almost literally untouched." ⁵ If the State accepts responsibility for welfare, the cities and towns would not bear such disproportionate shares.

A portion of a municipality's expenditures lie beyond its control. In Massachusetts cities and towns of the Metropolitan District are subject to assessments for the services of the Metropolitan District Commission. An item of greater consequence is the State Tax, levied by the State against cities and towns for the purpose of balancing its budget. This places an additional burden on municipal finances and on real estate--a burden determined by the State and not by the municipality that must pay it.

The estimation of expenditures is not quite the proper place for the consideration of the State Tax. The State Tax also has a bearing on revenues. The proportion of the total State Tax, paid by a municipality

5. Idem.

in any one year, determines the proportion of State-shared taxes the municipality receives. The Special Recess Commission on Real Estate Taxation has aptly stated the problem: "It is worthy of note, however, that the greatest evil inherent in the State Tax is not that it collects money from cities and towns, but that its incidence among cities and towns, serves as a formula for the distribution of State-collected money to municipalities. Since valuation and amount of distribution are thus tied together, communities of low per capita valuation and consequently greater need receive relatively meager distributions, while communities of relatively high per capita valuation receive generous amounts." ⁶

Governor Tobin has recommended that the State Tax be abolished. As yet this has not been accomplished. Even if it were abolished, this would not solve the whole problem for the most urgent need is to develop a sounder basis for State distributions to municipalities.

5. Assessed Valuations

A municipality draws the preponderance of its revenues from real estate taxation, which is based on an assessment of the real property within its boundaries. The administration of assessments is a crucial problem

6. Ibid., p. 10.

Proposition 1. Let $f: X \rightarrow Y$ be a continuous map between topological spaces. Then the image of a compact set is compact.

Proof. Let $K \subset X$ be a compact set. We want to show that $f(K)$ is compact. Let \mathcal{U} be an open cover of $f(K)$. Then \mathcal{U} is a collection of open sets in Y such that $f(K) \subset \bigcup_{U \in \mathcal{U}} U$.

For each $U \in \mathcal{U}$, the set $f^{-1}(U)$ is open in X because f is continuous. Moreover, $K \subset \bigcup_{U \in \mathcal{U}} f^{-1}(U)$ because $f(K) \subset \bigcup_{U \in \mathcal{U}} U$ and $f^{-1}(f(K)) \supset K$.

Since K is compact, there exists a finite subcover $\mathcal{V} \subset \mathcal{U}$ such that $K \subset \bigcup_{U \in \mathcal{V}} f^{-1}(U)$. Then $f(K) \subset \bigcup_{U \in \mathcal{V}} U$, which shows that $f(K)$ is compact.

Corollary 1. If $f: X \rightarrow Y$ is a continuous map and $K \subset X$ is compact, then $f(K)$ is compact. This is a special case of Proposition 1.

Example 1. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = [0, 1]$ be a compact set in \mathbb{R} . Then $f(K) = [0, 1]$ is compact.

Example 2. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

Example 3. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

Example 4. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

Example 5. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

Example 6. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

Example 7. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

Example 8. Let $f: \mathbb{R} \rightarrow \mathbb{R}$ be defined by $f(x) = x^2$. Then f is continuous. Let $K = \mathbb{R}$ be a compact set in \mathbb{R} . Then $f(K) = [0, \infty)$ is not compact.

of municipal government. The Commonwealth's Special Recess Commission on Real Estate Taxation and Related Matters has emphasized in its report of March 15, 1945, "that real estate in Massachusetts is grossly, even dangerously, overtaxed."⁷ The property seized because the owners could not meet the taxes and the razing of buildings to avoid paying taxes are indications of the plight of real estate owners.

The Special Commission found that overassessment and inequalities in assessment are serious problems in Massachusetts. Overassessment is not a danger if uniform throughout one taxing unit and if it bears the proper relation to the tax rate. Overassessment plus a high tax rate is, of course, catastrophic. Inequity in assessment is a more basic problem, especially where the assessors have recognized the decline in value of certain types of properties, or properties in certain areas, but have not taken into consideration the overall decline in the real estate market. This problem was particularly acute during the depression.

Discovering the trend in assessed valuations in a municipality is a fundamental part of setting up a capital outlay budget. The sum total of assessed

7. Ibid.

valuations is a factor of the tax rate. If it is thought desirable to freeze or decrease the tax rate, and assessed valuations are declining, it is necessary to contract municipal services and expenditures. If valuations are increasing the rate of increase is important. However, if it seems possible to increase the tax rate--and it never does in theory--the rate of change in assessed valuations is still of consequence.

Municipal services are the primary consideration of city and town planning. The ability of a community to pay for these services is the frame that places these services within the bounds of reality. The ability to pay depends on the assessed valuations which are the tax base.

In looking at the trends of assessed valuations for the purpose of setting up a capital outlay budget, whether valuations are rising or falling and their relation to prices in the real estate market can be determined empirically. Here is an opportunity to take a bird's eye view of what goes on in the community. A decline in valuations, default for tax payments, and the razing of buildings are the symptoms of disease. On the other hand a rise in valuations may be due to the arbitrary action of the assessors and not a symptom of health.

A capital outlay budget provides the opportunity

1870-1871

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for scrutinizing the factors that influence assessed valuations and a knowledge of existing conditions which opens the door to planning a better community.

6. A Program of Capital Improvements

Too often those in public office, especially in municipalities, become discouraged. There seems to be no activity within the government devoted to building the better community. The part of the capital outlay budget that comprises a program of public works is a channel for the formulation of what the community ought to be and what its government should provide for it in the way of services. It is not a place, however, where city planners can give full rein to wild ideas of helicopters landing on the roof of City Hall.

Any project in the program, such as a new school, extension of the recreation program, or a housing project must be tied to a financial plan. The expense of each project is met by issuing bonds. The payment of these bonds as they come due and the interest is met by the amount of money available for capital improvements.

Thus, when a city or town operating under a capital outlay budget decides it is necessary to undertake some sewer construction, estimated to cost \$50,000, it issues bonds, of which \$10,000 worth will become due in each of the five succeeding years. In each of those years

this \$10,000 plus the interest on the debt is a factor which limits the amount that can be spent on other projects. Total indebtedness for the retirement of bonds and the payment of interest is planned not to exceed the surplus of receipts over expenditures, the amount available for capital outlays. When bonds are retired or interest is paid, the item appears in the disbursement budget. This transfer indicates that payment was made from the revenues of that year, but does not eliminate the item as a factor in the program for public works. An increase in disbursements lessens the surplus available for next year's expenditures on capital improvements.

Let us suppose that when expenditures are subtracted from receipts, the city or town building the sewer has \$100,000 available for capital improvements. The financial plan already includes the expenses for sewer construction. An addition to a playground is estimated to cost \$1,500 for land and \$40,000 for building. The land is to be paid for at the time of sale but construction is to be financed by serial bonds. It is thought to be advisable to build a library, approximate cost, \$400,000. This also is to be financed by

bonds. The financial plan of their program of capital expenditures will look like this:

	<u>1</u>	<u>2</u>	<u>Year 3</u>	<u>4</u>	<u>5</u>
Sewer	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Land	1,500				
Playground	8,000	8,000	8,000	8,000	8,000
Library	80,000	80,000	80,000	80,000	80,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total proposed Capital Outlay	\$99,500	\$98,000	\$98,000	\$98,000	\$98,000
Estimated amt. available for Capital Outlay	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000

The above tabulation serves to illustrate the financial plan. The most important feature of a program for capital improvement is the determination of projects and their priority. This involves a complete survey of the city's existing facilities, its needs and its problems. It is continuously necessary for a community to evaluate local conditions. It is only with constant revaluation that a municipality can become a better community. A capital outlay budget, which is premised on an over-all picture, articulates this revaluation. It is a tool whereby a community may keep abreast of the dynamics of a changing world.

7. Municipal Reserves

The crux of the whole system of capital outlay budgeting is for the municipality to have in reserve an excess of receipts over expenditures. Reserves are of two kinds: (1) those intended for capital outlay and (2) those that are laid away in good times for use in periods of depression. Both types have been criticized on the score of possible political misuse and on the theory of current taxation for current expenditures only. Thomas Reed's criticism is as follows: " Attempts have been made to induce or compel local units to accumulate in advance of need a reserve fund out of which cash can be paid for improvements. This plan, however, has seldom produced satisfactory results and is not much employed. It is impossible to estimate accurately what future needs may be and there is always risk in leaving large sums of money lying about within reach of politicians. From the point of view of the taxpayer, it makes little difference whether he is taxed to pay for improvements before or after the fact." 8

The possibility of political misuse can be controlled by proper statutory regulation of these funds. The second objection is refuted by municipal budgetary

8. Reed, Thomas. Municipal Management, p.226.

practices, which have been inclined to create unexpended balances in excess and deficiency accounts. William S. Parker says of this, "As to the theory of taxation for current expenses only, that is so impossible of logical accomplishment and has been so generally violated by normal municipal procedures that it should cease to have weight." 9

The question of whether or not a municipality should acquire reserves has been highlighted by the present war. An era of prosperity with restrictions on construction and a decline in welfare costs has led to a general reduction in tax rates. Tax Commissioner Long has disapproved of cities' and towns' using their cash reserves to reduce taxes. The Massachusetts Federation of Taxpayers Associations believes that whether or not a municipality lays up a reserve is purely a matter for local determination. They filed with the General Court a measure, House No. 437, whose purpose is to divest the Tax Commissioner of his power to veto a municipality's using its reserves to reduce the tax levy.

This action illustrates a weakness in municipal finance. Now, in good times, little thought is being

9. Parker, William Stanley. Municipal Reserves, January 14, 1943. p. 1.

given to preparation for the financial hardship that will come with the generally-anticipated post-war depression.

The paramount issue is for municipalities to realize the importance of establishing reserves and a long range financial plan. If a municipality has nothing to carry it through a depression, it aggravates the slump by contracting its expenditures in construction and shifts to the Federal level the problem of employment of many persons who in good times have jobs in local public agencies.

8. Summary

Capital outlay budgeting, then, is an administrative aid in fiscal management. It gives a municipality an opportunity to establish a long-run financial plan and to make a comprehensive survey of municipal needs, services and tax capacity. The necessity for a municipality to continuously reevaluate local conditions and to strengthen its financial position is met in this technique of planning a program of capital improvements, paid for by acquiring a surplus of receipts over expenditures.

CONCLUSION

There are certain valid criticisms of capital outlay budgeting, both in its theory and in its practice. Some of these criticisms can be answered and some have not proved themselves historically. Above all, capital outlay budgeting is no panacea. It is a tool of government, which has developed in the process of resolving the conflict between society's yearning for economic stability, which seems to imply centralized control, and the preservation of capitalistic freedom.

The example of Sweden shows that these two objectives can be brought into harmony. However, two factors of Swedish prosperity are beyond the control of her budget practice. First, Sweden emerged from World War I an industrial, creditor nation. Second, Sweden remained an exporting nation. Her economy is closely tied to the outside world. In normal times, the devaluation of the French franc, especially, would have great repercussions on the Swedish economy. Sweden, like other countries, cannot be certain of stability as long as there is international economic chaos.

In addition, Sweden put her capital outlay budget into effect in an era which, under the aegis of the Social-Democrats, was a time of expanding government functions. It is incompatible with Swedish philosophy that the government should have unlimited functions. How will the budget system perform when the saturation point of governmental activity is reached? This most salient question is unanswered. Sweden's wonderful budget is only a little over ten-years old. Six of those have

been years of a war that has had its impact on every economy.

It is possible to make some critical generalizations about capital outlay budgeting as a technique. Its basic idea is that "sound finance" is a long run conception. Long run soundness is guaranteed if the deficits of the lean years are fully compensated by the surpluses of the fat years. Emphasis should be placed on the word, fully. It brings home how competently the investment budget must be planned and how carefully financed must be the years that follow a period of government expenditure. Such planning seems to require the wisdom of angels, little known to men.

There is also the problem of expanding and retrenching in perfect countercycle to business fluctuations. How can this countercycle be adequately timed? How can you determine the moment for government investment and the point of government withdrawal? Even if you can determine the "when" of investment, how can you plan projects to be of the proper duration?

Gunnar Myrdal gives the action of those in charge of railroads as an illustration of the difficulties.¹ On the downswing, good business men that they are, the Commissioners hesitated to invest in capital expenditures when freight revenue was falling off. Their caution meant that they did not

1. Editors of Fortune in consultation with Professor Gunnar Myrdal, "That Wonderful Swedish Budget," Fortune, September, 1938.

set the countercycle in motion at the moment the business cycle required it. Once embarked on a program of modernizing and re-equipping, they were reluctant to contract this activity when good times arrived again.

At the municipal level, where planning is divorced from the business cycle, there are dangers in the setting up and use of a capital budget. It is difficult to look forward and back. Future statistics are conditional; past statistics are not always accurate. Planning Boards are either elected, and thus are directly responsible to the citizens, or appointed for their professional acumen. The former may not have the technical skill to plan well; the latter may not have sufficient touch with conditions, as they exist, to be other than visionary.

Whatever may be the criticisms of capital outlay budgeting, one thing is certain. It presents a tool for an overall evaluation of the cities' existing plant and an outlet for creating improvements. Cities have particular disadvantages. They are regarded by some as "ulcers on the body politic" and by others as communities where, in all ages, has been the highest development. Each opinion has justification.

Man, since earliest times, has recognized the advantage of urban living. The possibility of higher income, greater variety of occupation, and cultural and educational

1. The first part of the report is devoted to a general survey of the situation in the country.

2. The second part of the report is devoted to a detailed analysis of the economic situation in the country.

3. The third part of the report is devoted to a detailed analysis of the social situation in the country.

4. The fourth part of the report is devoted to a detailed analysis of the political situation in the country.

5. The fifth part of the report is devoted to a detailed analysis of the cultural situation in the country.

6. The sixth part of the report is devoted to a detailed analysis of the international situation in the country.

7. The seventh part of the report is devoted to a detailed analysis of the future prospects of the country.

8. The eighth part of the report is devoted to a detailed analysis of the conclusions of the report.

9. The ninth part of the report is devoted to a detailed analysis of the recommendations of the report.

10. The tenth part of the report is devoted to a detailed analysis of the annexes of the report.

opportunities have drawn men to cities. These advantages have been fertile ground for the highest development.

On the other hand, the cities, that grew from steam and steel in the 19th and 20th centuries, were built as places to work in, not to live in. Factories took the best sites, such as river banks, so as to have water for power and refuse disposal. Workers had a fourteen hour day. They demanded little of their environment except a place to sleep within a short distance of their jobs.

Our leisure time makes us more demanding of our environment. It is necessary to provide within urban areas the background for good living and good family life. Planning does not insist on a rapid expansion of population and business, the motive on which the proposed Port of Boston is predicated. When a city is expanding, it resents foresightedness. Creative planning thinks in terms not of bigger, better, busier but of the indispensableness of a better community. Capital outlay budgeting is a tool whose potentialities captivate the imagination. It takes a wide view of things as they are. It leaves the door open to a vision of the better community. It brings these visions, into the realm of practicality, with a sound financial plan.

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Linear polyethylene

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High purity polyethylene
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